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BUREAU OF SUPPLIES AND ACCOUNTS

WASHINGTON 25, D. C.

NOVEMBER 15, 1944.

FEDERAL INCOME TAX INFORMATION

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INTRODUCTION

1. The following information, published with the approval of the Bureau of Internal Revenue, is furnished primarily for the assistance of naval personnel in the preparation of Federal income tax returns and computation of tax liabilities for the calendar year 1944, as well as their declarations of estimated tax for 1945. Prior income tax information pamphlets, issued by the Bureau of Supplies and Accounts, under dates of December 18, 1942, July 12, 1943, and February 14, 1944, are still applicable with respect to the preparation of returns and computation of liabilities for calendar years 1942 and 1943.

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GENERAL

2. Naval personnel are not excused from filing Federal income tax returns and declarations of estimated tax, or paying Federal income taxes solely by reason of being a member of the armed forces on active duty. A taxpayer's liability for filing a 1944 tax return is determined entirely on the basis of his gross income and without regard to his marital status, the number of his dependents, or the amount of his deductions, i. e., contributions, taxes, interest, medical expenses, etc. The due date for filing returns and paying taxes depends upon the location of the taxpayer's duty station, and in certain cases, whether or not the taxpayer's ability to pay his taxes has been materially impaired by reason of being in the service.

Generally, the tax exemptions, deductions, allowances, and deferments available to a civilian, are also applicable to a member of the armed forces. However, there are numerous provisions in the revenue laws granting additional tax benefits to members of the armed forces on active duty, particularly with regard to the determination of "gross income," and, under certain circumstances, the time for filing returns and paying taxes. The primary purpose of this pamphlet is to set forth these particular rights and benefits.

RECORDS AND SPECIAL RETURNS

3. Every person liable for a Federal income tax shall keep such records, render such statements, make such returns, and comply with such rules and regulations, as the Commissioner deems sufficient to show whether or not such person is liable for an income tax.

ACCOUNTING PERIODS

4. The taxable income shall be computed on the basis of the taxpayer's annual accounting period, either calendar or fiscal year.

If the taxpayer has no accounting period, or does not keep books, the taxable income shall be computed on the basis of the calendar year, and the computation shall be made in accordance with such method as, in the opinion of the Commissioner, clearly reflects the income.

If a taxpayer, with the approval of the Commissioner, changes his accounting period from fiscal year to calendar year, from calendar year to fiscal year, or from one fiscal year to another, the taxable income shall be computed on the basis of such new accounting period. In such a case, the taxable income computed for the fractional part of a year shall be placed on an annual basis.

If the taxpayer, with the approval of the Commissioner, changes the basis of computing taxable income from fiscal year to calendar year, a separate return shall be made for the period between the close of the last fiscal year for which return was made and the following December 31. If the change is from calendar year to fiscal year, a separate return shall be made for the period between the close of the last calendar year for which return was made and the date designated as the close of the fiscal year. If the change is from one fiscal year to another fiscal year, a separate return shall be made for the period between the close of the former fiscal year and the date designated as the close of the new fiscal year.

INCOME TAX RETURNS

WHO MUST FILE

5. *Income tax returns.*—Every individual citizen or resident of the United States (including a minor), whether single or married, whose gross income for the year 1944 is \$500 or more, must file a Federal income tax return. A person with a gross income of less than \$500, from which taxes have been withheld at source, should file a return in order to claim a refund of the amount withheld.

It is important to note that in determining the amount of gross income, certain income to a member of the armed forces is specifically excluded. For example: An ensign who has a base pay of \$1,800, rental allowance of \$540, and subsistence allowance of \$255.50 during the taxable year, receives a total of \$2,595.50. The rental allowance, the subsistence allowance, and \$1,500 of base pay are excluded from gross income, leaving but \$300 of gross income. Assuming this officer has no other income, he would not be required to file a return.

It is also important to note that in the case of husband and wife legally domiciled in a community-property State (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington), each is generally liable for a return with respect to one-half of the community income. For example: A captain who has a pay of \$6,000, rental allowance of \$1,440, and subsistence allowance of \$511 during the taxable year, receives a total of \$7,951. The rental allowance, the subsistence allowance, and \$1,500 of his pay are excluded from gross income, leaving \$4,500 of gross income. If legally domiciled in a community-property State, husband and wife would each be liable for a return with respect to \$2,250 of the Navy income. There are elective systems of community property in Oklahoma and Oregon, the effect of which for tax purposes has not yet been settled.

6. *Information returns.*—All persons making payment to another person of wages not subject to withholding, interest, rent, or other fixed or determinable income, of \$500 or more in any calendar year shall render a true and accurate information return to the Commissioner of Internal Revenue, Processing Division, 260 East One Hundred Sixty-first Street, New York 51, New York (not to the Collector), on or before 15 February of each year in such form as he may prescribe, setting forth the amount paid, and the name and address of the recipient. The return shall be made on Treasury Form 1099, accompanied by Treasury Form 1096. For example: If a person pays \$500 or more rent direct to the owner, he is required to send in the information return; information return is not necessary if rent is paid to a real estate agent, since such agent is required to file the information return.

WHEN TO FILE

7. Income tax returns made on the basis of the calendar year shall be filed on or before the 15th day of March following the close of the calendar year, and returns made on the basis of a fiscal year shall be filed on or before the 15th day of the third month following the close of the fiscal year, unless the due date is otherwise extended or postponed. The fact that a taxpayer filed an estimate of his income tax and paid such estimated tax during the year (see secs. 60-66), or

that his employer withheld the tax at source, does not excuse him from filing a return.

8. *Postponement.*—Returns and payment of taxes for the calendar year 1944 from naval personnel within the United States are normally due to be filed on or before 15 March 1945, the same as for any other taxpayer. However, the due date of any income tax return or payment thereon, which occurs while a member of the armed forces is serving on sea or foreign service duty, is automatically postponed until the 15th day of the *fourth* month following the month in which such member returns to the United States, except that such due date may not be postponed beyond the 15th day of the *third* month following the month in which the present war is terminated, or the month in which an executor, administrator, or a conservator of the estate of a taxpayer qualifies. Furthermore, the normal due date is similarly postponed when it occurs within 90 days after the last day of a period of 91 days or more of continuous service on sea or foreign service duty.

Under certain circumstances, a member of the armed forces on active duty may postpone the *payment* of his tax until six months after the war is over (see sec. 58 (a)), but there is no law or regulation which authorizes the postponement of the due date for *filing returns* reporting such tax beyond the period set out in the preceding paragraphs.

The due date for an income tax return of a civilian wife of a member of the armed forces is also postponed until the postponed due date of her husband, provided such civilian wife's separate gross income is less than \$1,200 during the taxable year. If the separate income of a civilian wife, and her share in community income actually received by her, aggregate \$1,200 or more, she must file an income tax return with respect to such income by the normal due date.

In addition to the foregoing, the Commissioner of Internal Revenue is authorized to grant a reasonable extension of time for filing returns under such rules and regulations as he shall prescribe with the approval of the Secretary of the Treasury. Applications for such extensions of time for filing income tax returns should be addressed to the Collector of Internal Revenue for the district in which the taxpayer files his returns and must contain a full recital of the causes for delay. No such extension may be granted for more than six months, except in the case of taxpayers who are abroad.

WHAT TO FILE

9. Income tax returns for the calendar year 1944 filed by citizens or residents of the United States must be made upon either Form W-2 (Rev.) or on Form 1040. Form 1040A has been discontinued.

10. Form W-2 (Rev.)—Form W-2 Rev. is a withholding receipt furnished by an employer to an employee showing the total amount of wages paid during the calendar year, and the total amount of Federal income tax withheld from such wages. This *form* may be used if taxpayer's income was solely from wages, dividends, or interest, the total of which amounted to less than \$5,000, and if not more than \$100 of it was from a source not subject to withholding. A taxpayer electing to use this form will simply answer several questions thereon and mail it to the Collector of Internal Revenue, who

will compute the tax (using the same *Tax Table* set out in Section 52), and mail the taxpayer a bill for the unpaid difference or a refund of any overpayment.

The active service pay of a member of the armed forces is not subject to withholding of tax at source. Therefore, naval personnel will not be furnished a W-2 form with respect to such pay. Certain retired pay, however, is subject to withholding of tax at source, and a W-2 form will be furnished with respect to it by the office of the Field Branch, Bureau of Supplies and Accounts, Cleveland, Chi.

11. *Form 1040.*—Taxpayers who are either not authorized to use the W-2 form or who do not elect to do so, *must* file their return on Form 1040. Form 1040 is so designed that the tax may be found by using a table, which is part of the form (See Sec. 52), or by making a detailed computation. Only taxpayers whose adjusted gross income is less than \$5,000 may use the table. This table automatically allows for normal tax and surtax exemptions and for deductions of approximately 10 percent of adjusted gross income in lieu of actual deductions such as contributions, taxes, interest, medical expenses, uniform equipment, and certain credits. Taxpayers who wish to claim actual allowable deductions (See Secs. 29-47), and taxpayers whose adjusted gross income is \$5,000 or more, must compute their tax in detail.

12. *Husband and wife.*—A husband and wife may each file a separate return, or they may file a joint return, even though one had no income nor deductions, provided neither is a nonresident alien and both file on the basis of the same taxable year. If a joint return is made, the tax shall be computed on the basis of the aggregate income, and the taxpayers shall be jointly and severally liable with respect to the tax so computed, and it may be collected from either of them. The right of husband and wife to file a joint return is dependent upon their marital status on the last day of the taxable year, regardless of the form or method used in determining their tax liability.

A husband and wife have a right each year to elect to file either a joint return or separate returns. However, that election, once made, cannot be changed. Generally, the election is made by filing a return, but in any case where the due date for the filing of a return by one spouse is postponed by reason of being on sea or foreign service duty, a final election may be made at any time on or before that postponed due date. For example: Returns are normally due on 15 March, and on that date a serviceman is on sea duty. His due date is automatically postponed until after he returns from sea duty. His wife, however, filed a separate return with respect to her income on 15 March. She may amend her separate return and file a joint return with her husband on or before his postponed due date if a tax saving would inure to their benefit by so doing.

A husband and wife will generally realize a tax saving by filing separate returns where the aggregate net income less surtax exemptions exceeds \$2,000. Where, however, one spouse has an adjusted gross income of less than \$500, a joint return should be filed in order to realize the full benefit of both surtax exemptions.

If a husband and wife, living together on the last day of the taxable year, file separate returns, and one itemizes actual allowable deductions, the other must file his or her return on Form 1040 and also itemize deductions, i. e., one may not claim the benefit of the optional

standard deduction and the other claim the itemized deductions. Both must determine their tax by the same method. However, one spouse may submit a return on Form W-2 and the other spouse may file a return on Form 1040 if he uses the *Tax Table* to find his tax or claims the optional standard deduction in the computation of it.

It should be noted that a joint return must be signed by both spouses or by their authorized agents. Therefore, members of the armed forces on sea or foreign service duty should consider the advisability of furnishing their spouses with a power of attorney (Treasury Department Form 936), to file a joint return in their behalf. For example: If a husband on sea or foreign service has a gross income, but less than \$500, and his wife is required to file a return with respect to her income, it will be necessary to file a joint return in order to get the full benefit of the husband's surtax exemption. The wife could not file a joint return without a power of attorney from her husband authorizing her to do so. It should be noted, however, that where a wife is required to file a return and her husband has no gross income, i. e., his active service pay is less than \$1,500, and he has no income from any other source, the wife may claim her husband's surtax exemption in her separate return by listing his name under Item 1, page 1 of Form 1040, or on the back of Form W-2 (Rev.) if that form is used.

In this connection, it may also be advisable to furnish a spouse with the power of attorney (Treasury Department Form 935), to file a separate return in his behalf. For example: In the early part of the year a husband estimated that his tax will be \$1,000, and he paid a substantial portion of it, after which he is ordered to sea or foreign service duty. The tax liability for the year, however, develops to be less than the payments made. In order to receive a refund of the overpayment, it is necessary to file a return. With the proper power of attorney, the wife could file the return for her husband and claim the refund in his behalf.

HOW TO PREPARE RETURNS

GENERAL

13. Generally speaking, an individual's income tax is based upon his "gross income" less his "business expenses", "allowable deductions", "exemptions" and "credits".

Under the revenue laws applicable to the calendar year 1944, certain specified expenses (see sec. 26) are subtracted from gross income to find adjusted gross income; deductions (see secs. 27-47) are subtracted from adjusted gross income to find net income; surtax exemptions (see secs. 48-50) are subtracted from net income to find surtax net income; and the normal tax exemption (see sec. 51) is subtracted from net income to find the normal tax net income. The surtax rate schedule (see sec. 53) is applied to the surtax net income, and the normal tax of 3 percent is applied to the normal tax net income. The victory tax has been repealed. For example:

Gross income	
Less: Business expenses	
Adjusted gross income	
Less: Optional Standard Deduction, or actual deductions	
Net income	
Less: Surtax exemption	
Surtax net income—at surtax rates equals	Surtax
Net income	
Less: Normal tax exemption	
Normal tax net income—at 3% equals	Normal tax
	Total tax

EXCLUSIONS FROM GROSS INCOME

14. Certain items of income are specifically excluded from "gross income", and are not, therefore, to be shown on the return. The following items fall into this category:

15. From naval sources.—

(a) Active service pay up to \$1,500. Active service pay includes base, longevity, sea and foreign service, flight, and other special duty pay. This \$1,500 is not prorated.

(b) Retired pay of persons retired from the naval service for physical disability incurred in line of duty. This includes the retired pay of persons recalled to active duty subsequent to retirement for other than physical disability and returned to inactive duty under section 8 (b) or (d) of the Temporary Promotion Law (Public Law 188—77th Congress) after incurring physical disability while on such active duty.

(c) Rental allowance (Act of June 16, 1942); nor need any amount be reported on account of quarters, heat, and light furnished in kind.

(d) Subsistence allowance (Act of June 16, 1942).

(e) Per diem allowance in lieu of subsistence.

(f) Money allowance for quarters paid enlisted men under the Act of October 17, 1942.

(g) Commutation of rations (enlisted men).

(h) Rations furnished in kind to enlisted men.

(i) Uniform gratuity or allowance paid to officers, nurses, or enlisted personnel.

(j) Uniforms furnished in kind to enlisted men.

(k) Gratuity pay (6 months' pay to beneficiary of a deceased officer or enlisted man).

(l) Personal cash allowance received by admirals and vice admirals.

(m) Amounts received in reimbursement for losses, sustained by officers, nurses, enlisted men, and civil employees serving under the Navy Department in foreign countries, due to appreciation of foreign currencies in relation to the American dollar, as authorized by the Act of March 26, 1934 (48 Stat. 466), and by Executive Order dated September 15, 1938, as amended.

(n) Family allowances: Amounts paid by Government to wife or dependents of enlisted personnel are considered gifts or gratuities. Amounts deducted from enlisted men's pay represent a part of their income.

(c) Mustering-out pay.

16. *From other sources.*—

(a) *Life insurance.*—Amounts received under a life insurance contract paid by reason of the death of the insured, whether in a single sum or otherwise (but if such amounts are held by the insurer under an agreement to pay interest thereon, the interest payments shall be included in gross income).

(b) *Annuities.*—Amounts received (except as stated in (a) above) under a life insurance or endowment contract, but if such amounts (when added to amounts received before the taxable year under such contract) exceed the aggregate premiums or consideration paid (whether or not paid during the taxable year) then the excess shall be included in gross income. Amounts received as an annuity under an annuity or endowment contract shall be included in gross income to the extent of 3 percent of the cost of the annuity (the aggregate premiums for consideration paid for such annuity, whether or not paid during such year), until he has received tax-free under this or prior income tax laws an amount equal to such cost; thereafter the annuity is taxable in full. In the case of a transfer for a valuable consideration, by assignment or otherwise, of a life insurance, endowment, or annuity contract, or any interest therein, only the actual value of such consideration and the amount of the premiums and other sums subsequently paid by the transferee shall be exempt from taxation under (a) above or this paragraph. Where, however, the contract has a basis for gain or loss in the hands of the transferee, determined in whole or in part with reference to the transferor's basis, the provisions of the preceding sentence shall be inapplicable to taxable years beginning after December 31, 1940. (See Schedule A, Form 1040 for computation of taxable portion of annuities.)

(c) *Gifts.*—The value of property acquired by gift, bequest, devise, or inheritance. However, the income from such property, or, if the gift, bequest, devise, or inheritance is of income from property, the amount thereof, shall not be excluded from gross income under this paragraph.

(d) *Tax-free interest.*—Interest upon:

(1) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions; or

(2) Obligations issued prior to March 1, 1941, under Federal Farm Loan Act, or under such Act as amended; or

(3) Obligations of United States issued on or before September 1, 1917; or

(4) Treasury Notes issued prior to December 1, 1940, Treasury Bills, and Treasury Certificates of Indebtedness issued prior to March 1, 1941; or

(5) Principal amount of United States Savings Bonds and Treasury Bonds, not in excess of \$5,000, issued prior to March 1, 1941.

In the case of obligations of the United States issued after 1 September 1917, and in the case of obligations of a corporation organized under act of Congress, the interest shall be

exempt only if and to the extent provided in the respective acts authorizing the issue thereof as amended and supplemented, and shall be excluded from gross income only if and to the extent it is wholly exempt from the taxes imposed by this income tax law. Interest credited to Postal Savings accounts upon moneys deposited prior to 1 March 1941, in Postal Savings Banks is wholly exempt from income tax.

(e) *Compensation for injuries or sickness.*—Amounts received through accident or health insurance or under workmen's compensation act, as compensation for personal injuries or sickness, plus the amount of any damages received whether by suit or agreement on account of such injuries or sickness. (However, reimbursements on account of medical and dental expenses which were claimed as deductions in a prior year should be reported as income up to the amount of such deductions.) Also amounts received as a pension, annuity, or similar allowance for personal injuries, or sickness resulting from active service in the armed forces of any country.

(f) *Stock dividends.*—No definite rule can be laid down regarding the taxability of stock dividends. Each case must be decided on its own merits.

(g) *Social Security benefits.*—Amounts received from the Federal or State governments under the Federal Social Security program.

(h) *Pensions.*—Pensions received from the United States by the family of a veteran for services rendered to the United States in time of war are exempt as gifts.

Pensions received from the United States by veterans under the World War Veterans' Act of 1924, as amended, and Emergency Officers' Retirement Act or for services in the Spanish-American War (Act of August 12, 1935 (49 Stat. 607)).

A pension paid by a State to a beneficiary for services rendered by another person is exempt from Federal income tax as a gift (I. T. 2669, Cumulative Bulletin XII-1, p. 68).

(i) *Dividends.*—From war-risk insurance policies.

(j) *Soldiers' Bonus.*—Paid under World War Adjusted Compensation Act.

(k) *Alimony.*—Periodic payments to a divorced or legally separated wife subsequent to a divorce or separate maintenance decree and attributable to property transferred in trust or otherwise, in discharge of a legal obligation incurred by husband under such decree or under a written instrument incident to such divorce or separation with respect to marital or family relationship shall not be includible in husband's gross income, except to the extent that such periodic payments represent amounts for the support of minor children of such husband as fixed by the terms of the decree or written instrument. Such payments excluded from the husband's gross income are income to the divorced or legally separated wife. Periodic payments within the meaning of this paragraph mean payments, whether or not made at regular intervals, and not lump sum payments of alimony. If there is a lump sum settlement payable in installments and the final payment under it is not to be made within 10 years, nor more than 10 percent of the lump sum is paid in any taxable year,

the amount paid in each taxable year will be considered a periodic payment.

(l) *Income of minor son or daughter.*—Heretofore, the earnings of an unemancipated son or daughter were generally held to be the income of the parent and such parent was required to report such earnings on his return. By Section 22 (m) of the Internal Revenue Code, the earnings of a minor are treated as the separate income of such minor.

GROSS INCOME TO BE REPORTED

17. "Gross income" includes gains, profits, and income derived from salaries, wages, or compensation for personal service, of whatever kind and in whatever form paid, or from professions, vocations, trades, businesses, commerce, or sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in such property; also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, or gains or profits and income derived from any source whatever. The term "gross income" however, does not include amounts received as a return of capital. For example: The amount received upon the sale or other disposition of an asset is taxable only to the extent that it exceeds the taxpayer's cost or other basis.

18. In the case of a citizen of the United States satisfying the following conditions of section 251 (a) of the Internal Revenue Code, gross income means only gross income from sources within the United States:

(1) If 80 percent or more of the gross income of such citizen (computed without the benefit of this section), for the 3 year period immediately preceding the close of the taxable year (or for such part of such period immediately preceding the close of such taxable year as may be applicable) was derived from sources within a possession of the United States; and

(2) If 50 percent or more of the gross income of such citizen (computed without the benefit of this section), for such period or such part thereof was derived from the active conduct of a trade or business within a possession of the United States either on his own account or as an employee or agent of another.

19. A citizen satisfying the above conditions is only required to include in gross income his income from sources within the United States or income derived from sources within the United States which is received by him within the United States. When compensation is received for services rendered, the "source" of the income is the place where the services are rendered rather than the place from which payment is made for such services. The salary or other compensation paid by the United States to the members of its civil, military, or naval personnel for services rendered within a possession of the United States represents income derived from the active conduct of a trade or business within a possession of the United States. Compensation of naval personnel for services performed within a possession of the United States is not considered "received * * * within the United States" merely because it is paid to a bank or a dependent by allotment. The benefits of this section apply to personnel attached to United States naval vessels only for

such periods as the vessels are within the territorial waters of a possession of the United States.

20. Within the meaning of section 251 of the Internal Revenue Code a "possession of the United States" is considered to include the following:

American Samoa.....	Pacific Ocean.	Panama Canal Zone..	Pacifico-Atlantic.
Manua.....	Do.	Sand Island.....	Pacific Ocean.
Swains.....	Do.	Wake Island.....	Do.
Tutuila.....	Do.	Peale.....	Do.
Baker Island.....	Do.	Wilkes.....	Do.
Guam Island.....	Do.	Pribilof Islands.....	Bering Sea
Howland Island.....	Do.	Puerto Rico.....	Caribbean Sea.
Jarvis Island.....	Do.	Navassa.....	Do.
Kingman Reef.....	Do.	Serranilla Bank.....	Do.
Midway Islands.....	Do.	Swan Islands.....	Do.
Philippine Islands.....	Do.		

Alaska and the Hawaiian Islands, including French Frigate Shoal, Johnston, Ocean or Kure, and Palmyra Islands, are considered Territories of the United States.

21. It is well to note that certain conditions must be met before a taxpayer may exclude his income from within a possession of the United States. It is necessary to first determine the "applicable period" and the total income from all sources during such "applicable period." The "applicable period" for a naval officer who commences duty within a possession of the United States on 1 January 1944, and completes such duty therein on 30 June 1944, and returns to the United States for the balance of the year, is 1 January to 30 June 1944. It is then necessary to determine whether or not the taxpayer's income meets the 80 percent and the 50 percent provisions set forth in section 18 above. In determining whether such percentage requirements are met, the \$1,500 of active service pay excluded from gross income by section 22 (b) (13) of the Internal Revenue Code, must be deducted before computation is made. This \$1,500 exclusion of service pay applies with respect to the entire taxable year, and cannot, therefore, be prorated; it must be subtracted from the gross active service pay for the entire year. In order to determine the amount of gross income which is excluded under section 251 of the Internal Revenue Code, the Bureau of Internal Revenue has ruled that, for the purpose of apportionment it is necessary to employ "as a coefficient of allocation, a fraction whose numerator is the amount of military pay derived during the year from sources within a possession of the United States, and whose denominator is the amount of military pay derived during the taxable year from all sources."

For example: A naval officer's total service pay during 1944 is \$4,500. Of that sum \$2,000 was earned and received within a possession of the United States from 1 January, his original date of duty within the possession, to 30 June 1944, his last date of duty within a possession during the calendar year, the remaining \$2,500 being earned in the United States from 1 July to 31 December 1944. He has no other income during 1944. The coefficient of the allocation in this case is 2000/4500. His gross income, determined as \$3,000 (\$4,500 less \$1,500), is multiplied by that fraction. The result, \$1,333.33, is the amount of gross income attributable to sources within a possession of the United States, and since it represents 100 percent of his income during the "applicable period," it is excluded

from gross income under section 251 of the Internal Revenue Code. The remaining gross income is \$1,666.67, and must be reported on Form 1040. This amount, of course, is subject to any deductions attributable thereto. The surtax exemption, however, for a taxpayer claiming the benefits of section 251 is limited to \$500. The exemptions for dependents in such cases are not allowable.

This officer would be required to furnish with his Form 1040 a Form 1040 E, the schedule of which would be made out as follows:

Item No.	Income	Three-year period			Part of period applicable Begin 1-1, 1944 Ended 6-30, 1944
		19....	19....	1944	
1	Total gross income from all sources.....			\$1,333.33	\$1,333.33
2	Total gross income from sources within a possession of the United States.....			1,333.33	1,333.33
3	Gross income derived from the active conduct of a trade or business within a possession of the United States either on your own account or as employee or agent of another.....			1,333.33	1,333.33
4	Total gross income from sources other than within the United States and a possession of the United States.....			None	None
5	What portions of items 2 and 4 were received within the United States?.....			None	None

22. In the case of a citizen of the United States who cannot satisfy the above conditions of section 251, *supra*, all compensation received for services rendered to the United States, or any of its agencies, is required to be included in gross income, whether the recipient has lived all or any part of the year outside the continental limits of the United States.

23. The following items of income constitute "gross income," and, to the extent that they are not reduced by allowable "business expenses" explained in Section 26, should be reported on page 1 of Form 1040:

From Navy sources.—

(a) Active service pay during taxable year in excess of \$1,500. (Active service pay consists of base, longevity, sea, foreign service, flight, and other special duty pay.)

(b) Retired pay, if retired for other than physical disability. (See sec. 15 (b).)

(c) *Mileage*—the total amount received as mileage should be included in gross income. However, the actual expenses paid while performing the travel, such as meals, railroad fares, lodging, etc., may be deducted. (See sec. 26 (b).)

(d) Travel pay to discharged enlisted man. Treat same as mileage.

(e) Transportation for dependents—the actual cost to the Government for the transportation of the dependents of officers and enlisted men. No deduction is allowed for the expenses of such travel.

(f) Interest on deposits of enlisted men.

(g) All permanent and transient additions to pay (enlisted men).

(h) One year's pay received by officers wholly retired.

(i) Allowances received by retired enlisted men under act of March 2, 1907 (\$9.50 per month in lieu of rations and clothing and \$6.25 per month in lieu of quarters, fuel and light).

(j) Enlistment allowance (enlisted men).

24. *From sources outside the Navy.—*

(a) Compensation for personal or professional services.

(b) Amounts received from former employer even though paid to the dependents of former employee.

(c) Business income, either as an individual proprietor or as a partner in a business operated for profit.

(d) Profits from sales and dealings in properties (real or personal, tangible or intangible).

(e) Income from investments in properties or securities, such as rent or interest.

(f) Dividends from domestic and foreign corporations.

(g) Pensions paid by a State for services are subject to the Federal income tax.

ADJUSTED GROSS INCOME

25. The term "adjusted gross income" is a new item in the income tax law. It is important since the optional *Tax Table* (see sec. 52), is based on it; it determines whether or not a taxpayer may use the optional *Tax Table*; it determines the amount of the optional standard deductions, and it is used to determine the limitation on charitable contributions, and the extent to which medical expenses are allowable deductions. Generally, "adjusted gross income" means "gross income" less the expenses attributable to the trade or business of the taxpayer and his allowable losses from the sale or exchange of property. The performance of services as an employee, however, is not considered to be a trade or business for this purpose.

26. *Deductions from gross income.*—The following items are deductible from gross income in arriving at adjusted gross income:

(a) *Mess bills afloat.*—A naval officer, with or without dependents, while on duty afloat, who actually maintains a home elsewhere, is entitled to deduct the difference between the amount expended for mess bills and the amount of his subsistence allowance. For example: An officer without dependents, but actually maintaining a home ashore, received a subsistence allowance of \$21 per month. His mess bill is \$30 per month. His allowable deduction is \$9 per month. However, an officer with dependents whose subsistence allowance is \$42 per month, may deduct his mess bill only to the extent that it exceeds \$42. The existence of a "home" is a question of fact to be determined in each individual case (to the satisfaction of the Commissioner of Internal Revenue). If an officer does not have a "home", the difference between amount paid for mess bill and subsistence allowance received is not deductible.

(b) *Travel expenses.*—All actual expenses of travel, meals, lodging, etc., while away from duty station if traveling in a mileage status. If traveling in per diem status, such actual expenses are deductible only to the extent that they exceed the per diem

allowance. A statement should be attached to the return listing as much detail as possible.

(c) *Expenses attributable to rents and royalties.*—Expenses in connection with property held for the production of rents and royalties include taxes on the property, interest, depreciation, repairs, agent's commission, insurance premiums, etc. The items should be set out in Schedules B, F, and G, page 3 of Form 1040, and should not be itemized or claimed on page 4 of such Form.

(d) *Losses from sale or exchange of property.*—This includes loss on the sale or exchange of capital assets as well as the loss on sales or exchanges treated as the sales or exchanges of capital assets. Personal loans determined to be worthless during the taxable year are treated as short-term capital losses. It also includes the loss on the sale or exchange of non-capital assets. Detailed information with respect to these items should be shown on the separate Schedule D (Form 1040).

NET INCOME

27. Net income is determined by subtracting either the amount of the optional standard deduction or the aggregate of the amounts of actual allowable deductions from the adjusted gross income. It is relatively unimportant to the taxpayer who uses the *Tax Table* on page 2 of Form 1040 (see sec. 52), to find his tax, since the optional standard deduction is worked into the table. Where the tax computation method is used, net income is shown on line 3 at the bottom of page 4 of Form 1040.

DEDUCTIONS FROM ADJUSTED GROSS INCOME

28. *Optional standard deduction.*—The "optional standard deduction" is an arbitrary allowance of approximately 10 percent of adjusted gross income (amount shown on line 5, page 1, Form 1040), limited to a maximum of \$500, which the taxpayer may elect to take in lieu of actual allowable deductions for contributions, taxes, interest, extraordinary medical expenses, alimony, etc., and credits for taxes paid to a foreign country or possession of the United States, tax withheld at source on tax-free covenant bonds, and interest on partially tax-exempt government bonds. The election is exercised by claiming it when the return is originally filed. The election, once made, is thereafter irrevocable with respect to a particular year. However, where a service person's due date for filing a return is postponed by reason of sea or foreign duty, his spouse may make a final election at the time the service person files his return, but not later than the postponed due date. Careful consideration should, therefore, be given in determining the amount of the actual allowable deductions before electing to claim the optional standard deduction.

As heretofore indicated, in the case of husband and wife living together on the last day of the taxable year who file separate returns, both must exercise the same election, i. e., one may not claim the optional standard deduction and the other actual deductions. If a husband elects to claim actual deductions on his separate return, the wife cannot claim the optional standard deduction but must also claim actual deductions on her return.

A taxpayer electing to claim the optional standard deduction, whose adjusted gross income is less than \$5,000, must find his tax on the *Tax Table* on page 2, Form 1040. A taxpayer, whose adjusted gross income is \$5,000 or more, may claim the maximum optional standard deduction, which is \$500, by entering that amount on line 2 of the tax computation at the bottom of page 4, Form 1040.

A taxpayer claiming the optional standard deduction must not itemize his actual deductions on page 4 of Form 1040, nor claim any credit on lines 7, 12, or 13 of the tax computation on the same page.

29. *Actual allowable deductions.*—A taxpayer whose actual allowable deductions amount to more than 10 percent of his adjusted gross income (line 5, page 1, Form 1040), should itemize them on page 4 of Form 1040, giving as much detail as necessary to explain them, and enter the total on line 2 of the tax computation at the bottom of page 4. A taxpayer making his return on the cash receipts and disbursements basis should only claim deductions for amounts paid during the taxable year. The following items are allowable as deductions for the calendar year 1944 as indicated:

30. *Contributions—deductible.*—Amounts paid during the taxable year to or for the use of:

(a) The United States, any State, Territory, or any political subdivision thereof or the District of Columbia, or any possession of the United States, for exclusively public purposes;

(b) A corporation, trust, or community chest, fund, or foundation, created or organized in the United States or in any possession thereof or under the law of the United States or of any State or Territory or of any possession of the United States, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual; (For example: churches, Red Cross, U. S. O., Community War Fund, Navy Relief, American Legion, Y. M. C. A., Y. W. C. A., Salvation Army, National Tuberculosis Association, college endowment funds, etc.).

(c) The special fund for vocational rehabilitation authorized by section 12 of the World War Veterans' Act, 1924 (43 Stat. 611, U. S. C., Title 38, section 440);

(d) Posts or organizations of war veterans, or auxiliary units or societies of any such posts or organizations, if such posts, organizations, units, or societies are organized in the United States or any of its possessions, and if no part of their net earnings inures to the benefit of any private shareholder or individual; or

(e) A domestic fraternal society, order, or association, operating under the lodge system, but only if such contributions or gifts are to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

Limitation.—The total amount allowable for contributions cannot exceed 15 percent of the taxpayer's adjusted gross income (line 5, page 1, Form 1040).

31. *Contributions—not deductible*—

(a) Amounts contributed to organizations, a substantial part of the activities of which consists in carrying on propaganda or otherwise attempting to influence legislation.

(b) Private gifts (as charity or for other reasons), to an individual or individuals.

32. *Interest—deductible*.—Interest on personal indebtedness, including loans from individuals, banks, and insurance companies, and interest on a mortgage secured by real estate in which the taxpayer has a legal or equitable interest even though he is not directly liable on the mortgage note. Interest on a mortgage on jointly-owned property is deductible by the co-owner making the payment. Interest charged on a brokerage account is deductible when actually or constructively paid. Interest deductible under Section 26 (c) is not deductible under this section.

Interest—not deductible.—Interest paid as an accommodation on an obligation of another is not deductible, nor is interest paid on indebtedness incurred or continued to purchase obligations issued by the United States after September 24, 1917, and originally subscribed for by the taxpayer, the interest upon which is wholly exempt from income tax. Interest on loans secured by life insurance policies which, instead of being paid, is merely added to the amount of the loan, is not deductible.

33. *Taxes—deductible*.—As a general rule, taxes are deductible only by the person upon whom they are imposed by law. The following items are deductible:

- (a) Poll tax.
- (b) State income tax.
- (c) Tangible and intangible personal property taxes.
- (d) Real estate taxes, State and local.
- (e) State and local automobile license fees and drivers' permits.
- (f) State stamp taxes on deeds, transfers of securities, etc.
- (g) State and local retail sales taxes (imposed in the first instance on the retailer, measured by the selling price, or by an amount per unit, which are separately stated and paid by the purchaser.
- (h) State and local sales taxes imposed directly on the consumer.

(i) Gasoline taxes imposed by the following States:

Arizona	Maryland	Ohio
Arkansas	Massachusetts	Oklahoma
Colorado	Michigan	Oregon
Connecticut	Minnesota	Pennsylvania
Delaware	Missouri	Rhode Island
District of Columbia	Montana	South Carolina
Georgia	Nebraska	South Dakota
Idaho	Nevada	Tennessee
Illinois	New Hampshire	Texas
Indiana	New Jersey	Vermont
Iowa	New Mexico	Virginia
Kansas	New York	Washington
Kentucky	North Carolina	West Virginia
Maine	North Dakota	Wisconsin

(j) Taxes assessed by a foreign country or a possession of the United States, except estate, inheritance, legacy, succession, and gift taxes, provided credit therefor is not claimed on line 12 of the tax computation schedule on page 4 of Form 1040.

34. *Taxes—not deductible*.—The following items are not allowable as deductions from adjusted gross income:

(a) Federal excises imposed on the items enumerated below, which were formerly deductible by individual taxpayers, may not be deducted for taxable years beginning after 31 December 1943:

- (1) Club dues and initiation fees.
- (2) Admissions.
- (3) Transportation.
- (4) Communications.
- (5) Automobile use stamps.
- (6) Import duties.
- (7) Documentary stamp taxes.

(b) Federal retailers' sales taxes on jewelry, silverware, watches and clocks, furs, cosmetics, luggage, toilet preparations, etc.

(c) Federal manufacturers' excise taxes on cigarettes, alcoholic beverages, automobiles and accessories therefor, tires and tubes, refrigerators, sporting goods, radios, phonographs, etc.

(d) Real estate taxes which constituted a lien against the property at the time of its acquisition are not deductible when subsequently paid. They represent an additional cost of the property and must be capitalized as such.

(e) Taxes which are not imposed on the payor, or which are paid as an accommodation for another person. Taxes paid on jointly-owned real estate, however, are deductible by the individual making payment thereof.

(f) Federal income and victory taxes.

(g) Income, war-profits, and excess-profits taxes imposed by the authority of any foreign country or possession of the United States, if credit therefor is claimed on line 12 of the tax computation schedule on page 4 of Form 1040.

(h) Federal and State inheritance, estate, legacy, succession, and gift taxes.

(i) Taxes assessed against local benefits of a kind tending to increase the value of the property assessed, such as assessments for street improvements, sidewalks, sewers, etc.

(j) Gasoline taxes imposed by the Territory of Hawaii and the following States:

Alabama	Mississippi
California	Utah
Florida	Wyoming
Louisiana	

(k) Federal gasoline tax.

(l) Dog, hunting, and fishing licenses.

(m) Water rent, or tax, for water consumed in the taxpayer's own residence.

35. *Losses—deductible.*—

(a) Losses which are not connected with a trade or business but sustained during the taxable year as a result of fire, storm, shipwreck, or other casualty, or from theft, are deductible to the extent not compensated by insurance or otherwise. The basis for determining the allowable deduction in such cases is the fair market value (not to exceed cost) of the damaged, destroyed, or stolen property immediately before the casualty, or theft, and is measured by the difference between such valuation and the fair market value of the property immediately thereafter, if any, less the amount of any insurance or other reimbursement.

(b) A loss occasioned by damage to an automobile maintained for pleasure is deductible, to the extent it is not covered by insurance, unless it is the result of a willful act, or the willful negligence of the taxpayer. If damage to a taxpayer's automobile results from the faulty driving of the operator of an automobile with which the automobile of the taxpayer collides, the loss occasioned to the taxpayer by such damage is likewise deductible.

(c) Losses of naval disbursing officers due to replacement of shortages in accounts not due to negligence.

(d) Losses sustained as a result of the destruction or seizure of property in the course of military or naval operations during the war, including a loss of personal effects to the extent not reimbursed, and of property located in enemy countries or in areas under enemy control, are also deductible.

36. *Losses—not deductible.*—

(a) Wagering losses in excess of gains.

(b) Fines and penalties imposed by courts-martial and civil courts.

(c) Accidental losses of property, such as a ring from a finger.

(d) Depreciation in the market value of stocks and securities.

(e) Losses from sales or exchanges of property (including worthless stocks, bonds, and personal loans which are treated as losses from the sale or exchange of capital assets), are to be reported in separate Schedule D (Form 1040), and the allowable loss carried to page 3 of the return in arriving at adjusted gross income.

(f) No deduction is allowable for losses resulting from sales or exchanges of property—

(1) Either directly or indirectly between members of a family, which includes the taxpayer's spouse, brothers and sisters (whether by the whole or half blood), ancestors and lineal descendants.

(2) Except in the case of distribution in liquidation, between an individual and a corporation in which the taxpayer, either individually or in conjunction with members of his family, owns more than 50 percent in value of the outstanding stock.

(3) If, within 30 days before or after the sale or exchange of stock or securities, the seller acquires by purchase or taxable exchange, or contracts to acquire, substantially identical stock or securities.

(4) Used as the taxpayer's personal residence up to the time of sale.

37. *Medical and dental expenses.*—Only extraordinary medical and dental expenses are allowable as deductions. An extraordinary medical expense means the total of amounts paid during the taxable year, and not compensated by insurance or otherwise, for the medical care of the taxpayer, his spouse, and any dependent for whom a surtax exemption is allowable, less an amount equal to 5 percent of the taxpayer's adjusted gross income appearing on line 5, page 1, Form 1040.

38. The term "medical care" is broadly defined in the law to include amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body. Total medical expenses include the following items:

- Premiums paid for health, accident, or hospitalization insurance.
- Hospital bills.
- Expenses for nurses (including nurses' board where paid by the taxpayer).
- Medicine.
- Medical supplies.
- Laboratory fees.
- Doctor and dentist bills.
- Artificial teeth and limbs.
- Eye glasses.
- Hearing aids.
- Ambulance hire.
- Cost of travel primarily for and essential to securing medical care.

The amount deductible as an extraordinary medical expense is limited to \$2,500 unless only one surtax exemption is allowable, in which event the maximum deduction is \$1,250. Where husband and wife file a joint return, only one computation is made, the payments by each being added together, and the 5 percent limitation is based on their aggregate adjusted gross income.

The computation of the deductible medical expense item should be made in the schedule on page 4 of Form 1040, or a separate statement attached to the return, giving as much detailed information with respect to the payments as necessary to explain them.

Medical expenses in excess of reimbursements therefor, but less than 5 percent of adjusted gross income are considered ordinary medical expenses and are not deductible. Medical expenses incurred but not paid during the taxable year are not includible in determining total medical expenses. Payments for life insurance premiums, funeral expenses, illegal operations or treatments, and illegally procured drugs, are not proper medical expenses.

MISCELLANEOUS ITEMS—DEDUCTIBLE

39. *Uniform equipment.*—The cost of all items of insignia of rank and corps, including gold lace and devices on the uniform coat, black braid on the overcoat and aviation winter working uniform, collar devices, shoulder marks, chin straps, cap devices and the

excess cost of a cap for officers of the rank of commander and above which is attributable to the gold lace on the visor. The cost of campaign bars, sword, full-dress belt, undress belt, epaulets, and aiguillets is also deductible.

The expense of altering uniforms and equipment upon change of rank by promotion or demotion is deductible. This does not include laundry, cleaning, repairs, depreciation, or alteration of the uniform itself. The cost of the uniform itself is not deductible since the uniform takes the place of civilian clothing and the cost thereof is a personal expense.

40. *Alimony*.—Periodic payments made pursuant to a decree of divorce or separate maintenance in discharge of a legal obligation imposed upon or incurred by the taxpayer under such decree, or under a written instrument incident thereto, by reason of the marital or family relationship.

No portion of any payment which is separately stated in the decree or agreement to be for the support of a minor child is deductible under this section but if the total of such payments made during the year provides the child's chief support, the payor is entitled to a surtax exemption for a dependent if the other requirements stated in Section 49 are also present. If the total payments made during the year under such circumstances are less than the total specified by the decree, the amount paid shall be first applied in satisfaction of the amount required for the support of the minor.

41. *Dues* to professional societies.

42. *Subscriptions* to professional journals.

43. Ordinary and necessary expenses, such as investment counsel fees, custodian fees, transfer taxes paid on the purchase and/or sale of stocks and bonds, and the cost of a safe deposit box (including the tax thereon) paid in connection with the production or collection of taxable income, or for the management, conservation, or maintenance of property held for the production of taxable income.

44. A tenant-stockholder in a cooperative apartment house corporation may deduct his share of the real estate taxes and interest paid by such corporation.

45. *Blind individuals*.—An individual whose central visual acuity does not exceed 20/200 in the better eye with correcting lenses, or whose visual acuity is greater than 20/200 but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than 20 degrees, is entitled to a special deduction of \$500. The taxpayer's status on 1 July of the taxable year is determinative of his right to this deduction, unless the taxable year does not include such date, in which event his status on the last day of the taxable year will control.

46. *Amortizable bond premium*.—This deduction bears no relation whatever to War Savings bonds. It has an extremely limited application and taxpayers interested should refer to section 125, Internal Revenue Code, and the regulations promulgated thereunder.

47. *Miscellaneous items—not deductible*.—The following items are not deductible from adjusted gross income:

(a) Personal living or family expenses.

(b) Living expenses of personnel stationed in one locality for an indefinite period.

(c) The cost of daily transportation between home and office.

(d) Ordinary repairs, alterations, and depreciation on a building occupied as a personal residence.

(e) Any amount paid out for new buildings, or for permanent improvements made to increase the value of any property or estate.

(f) Premiums paid on any life insurance policy.

(g) Damage to household furniture or furnishings in moving.

(h) Expenses of visiting home while on furlough, leave or liberty.

(i) Purchase of War Bonds.

SURTAX EXEMPTIONS

48. In determining the amount subject to Surtax, net income is reduced by the amount of the surtax exemptions to which the taxpayer is entitled. For the calendar year 1943 a husband and wife were entitled to \$1,200 personal exemption between them. This personal exemption could be taken on one return or divided in any way they chose on separate returns. It was prorated, dependent upon the portion of the year that the marital status existed. Also for 1943, the taxpayer was entitled to subtract from net income a \$350 credit for each dependent. This credit was also prorated. The head of a family was entitled to \$1,200 exemption but no credit for the first dependent.

For the calendar year 1944, however, the surtax exemption is \$500 for each individual, i. e.,

\$500 for the taxpayer,

\$500 for the taxpayer's husband or wife if a joint return is filed, or if such husband or wife has no gross income and is not the dependent of another person,

\$500 for each dependent.

These surtax exemptions are not prorated. For example: If a husband and wife are married on December 15th, the wife having no gross income during the year and is not the dependent of another, the husband may claim \$1,000 surtax exemption on his separate return; so too, \$500 surtax exemption may be claimed for a child born on December 15th.

The determination date as to whether a person is married or single is made on the last day of the taxable year, unless a husband or wife dies during the year, in which case the determination is made as of the date of death. The status of "head of family" has been abolished.

49. *Dependents*.—In order for the taxpayer to claim credit for a dependent, it is necessary that—

(1) The dependent be either a child, grandchild, stepchild, brother, sister (step or half), parent, grandparent, stepfather, stepmother, nephew, niece, uncle, aunt, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law. Citizens of foreign countries are not considered "dependents" unless residents of either the United States, Canada, or Mexico.

(2) The dependent must have a gross income of less than \$500 for the calendar year.

(3) The taxpayer must furnish more than half of the dependent's support for the calendar year.

For example: A parent may claim a surtax exemption of \$500 each for a son who entered the armed forces during the year, and for his daughter over 18 years of age, in college, if such parent furnished more than half of their support during the year and if neither of them had a gross income of \$500 or more.

50. A taxpayer using the *Tax Table* would find his tax in the column headed by the number of surtax exemptions to which he is entitled. For example: A husband with a wife who has no gross income, and two children, will find his tax in column headed "4." A taxpayer using the computation at the bottom of page 4, Form 1040, would multiply the number of his surtax exemptions by \$500 and enter the product on line 4. The taxpayer above referred to would enter \$2,000. The difference between net income and surtax exemptions constitutes surtax net income, and the surtax on such amount will be found by applying the rate table set out under Section 53. The surtax will be entered on line 6 at the bottom of page 4, Form 1040.

NORMAL TAX EXEMPTIONS

51. In computing the normal tax, each taxpayer is allowed a flat or fixed \$500 as a normal tax exemption, regardless of marital status or number of dependents. Where a joint return is filed, the normal tax exemption is \$1,000 unless the adjusted gross income of one spouse is less than \$500, in which case the normal tax exemption is \$500 plus the adjusted gross income of such spouse. The tax shown in columns found on the *Tax Table* has already made allowance for one normal tax exemption. Therefore, a taxpayer using such table to find his tax will not subtract anything from his adjusted gross income. Where a joint return is filed, and the *Tax Table* is used, the tax found on such table should be reduced by \$15, or by an amount equal to 3 percent of the adjusted gross income of the spouse contributing less than \$500 of adjusted gross income to the return, whichever is less.

A taxpayer using the computation at the bottom of page 4, Form 1040, and who claims the \$500 optional standard deduction on line 2, will subtract the normal tax exemption from net income and enter the balance on line 9. A taxpayer using the computation method, but claiming actual deductions, may subtract from net income the amount of normal tax exemption and the amount of partially tax-exempt interest in excess of amortizable bond premiums for the year if any. The balance will be entered on line 9.

TAX RATES

52. A taxpayer whose adjusted gross income is less than \$5,000, and who claims the optional standard deduction must find his tax on the following *Tax Table*, which is taken from page 2 of Form 1040:

TAX TABLE

If the adjusted gross income is—		And the number of surtax exemptions is—					If the adjusted gross income is—		And the number of surtax exemptions is—								
At least	But less than	1	2	3	4	5 or more	At least	But less than	1	2	3	4	5	6	7	8	9 or more
The tax shall be							The tax shall be										
\$0	\$500	\$0	\$0	\$0	\$0	\$0	\$2,300	\$2,325	\$394	\$394	\$164	\$64	\$47	\$47	\$47	\$47	\$47
500	575	0	0	0	0	0	2,325	2,350	399	399	169	69	48	48	48	48	48
575	600	7	1	1	1	1	2,350	2,375	374	374	174	74	49	49	49	49	49
600	625	12	2	2	2	2	2,375	2,400	379	379	179	79	49	49	49	49	49
625	650	17	2	2	2	2	2,400	2,425	384	384	184	84	50	50	50	50	50
650	675	22	3	3	3	3	2,425	2,450	390	390	190	90	51	51	51	51	51
675	700	27	4	4	4	4	2,450	2,475	396	396	196	96	51	51	51	51	51
700	725	32	4	4	4	4	2,475	2,500	400	400	200	100	52	52	52	52	52
725	750	38	5	5	5	5	2,500	2,525	406	406	206	106	53	53	53	53	53
750	775	43	6	6	6	6	2,525	2,550	410	410	210	110	54	54	54	54	54
775	800	48	6	6	6	6	2,550	2,575	415	415	215	115	54	54	54	54	54
800	825	53	7	7	7	7	2,575	2,600	421	421	221	121	55	55	55	55	55
825	850	58	8	8	8	8	2,600	2,625	426	426	226	126	56	56	56	56	56
850	875	64	8	8	8	8	2,625	2,650	431	431	231	131	57	57	57	57	57
875	900	69	9	9	9	9	2,650	2,675	436	436	236	136	58	58	58	58	58
900	925	74	10	10	10	10	2,675	2,700	441	441	241	141	58	58	58	58	58
925	950	79	10	10	10	10	2,700	2,725	446	446	246	146	59	59	59	59	59
950	975	84	11	11	11	11	2,725	2,750	452	452	252	152	60	60	60	60	60
975	1,000	89	12	12	12	12	2,750	2,775	457	457	257	157	60	60	60	60	60
1,000	1,025	95	12	12	12	12	2,775	2,800	462	462	262	162	61	61	61	61	61
1,025	1,050	100	13	13	13	13	2,800	2,825	468	468	267	167	61	61	61	61	61
1,050	1,075	105	14	14	14	14	2,825	2,850	473	473	272	172	62	62	62	62	62
1,075	1,100	110	14	14	14	14	2,850	2,875	479	479	277	177	62	62	62	62	62
1,100	1,125	115	15	15	15	15	2,875	2,900	485	485	283	183	63	63	63	63	63
1,125	1,150	120	16	16	16	16	2,900	2,925	490	490	288	188	64	64	64	64	64
1,150	1,175	125	16	16	16	16	2,925	2,950	496	496	293	193	64	64	64	64	64
1,175	1,200	130	17	17	17	17	2,950	2,975	502	502	299	199	65	65	65	65	65
1,200	1,225	136	18	18	18	18	2,975	3,000	507	507	304	204	65	65	65	65	65
1,225	1,250	141	18	18	18	18	3,000	3,025	513	513	309	209	66	66	66	66	66
1,250	1,275	146	19	19	19	19	3,025	3,050	519	519	314	214	67	67	67	67	67
1,275	1,300	152	20	20	20	20	3,050	3,075	525	525	319	219	67	67	67	67	67
1,300	1,325	157	20	20	20	20	3,075	3,100	531	531	324	224	68	68	68	68	68
1,325	1,350	162	21	21	21	21	3,100	3,125	537	537	329	229	68	68	68	68	68
1,350	1,375	167	22	22	22	22	3,125	3,150	543	543	334	234	69	69	69	69	69
1,375	1,400	172	22	22	22	22	3,150	3,175	549	549	339	239	69	69	69	69	69
1,400	1,425	177	23	23	23	23	3,175	3,200	555	555	344	244	70	70	70	70	70
1,425	1,450	183	24	24	24	24	3,200	3,225	561	561	349	249	70	70	70	70	70
1,450	1,475	188	25	25	25	25	3,225	3,250	567	567	354	254	71	71	71	71	71
1,475	1,500	193	26	26	26	26	3,250	3,275	573	573	359	259	71	71	71	71	71
1,500	1,525	198	26	26	26	26	3,275	3,300	579	579	364	264	72	72	72	72	72
1,525	1,550	203	27	27	27	27	3,300	3,325	585	585	369	269	72	72	72	72	72
1,550	1,575	208	27	27	27	27	3,325	3,350	591	591	374	274	73	73	73	73	73
1,575	1,600	214	28	28	28	28	3,350	3,375	597	597	379	279	73	73	73	73	73
1,600	1,625	219	29	29	29	29	3,375	3,400	603	603	384	284	74	74	74	74	74
1,625	1,650	224	29	29	29	29	3,400	3,425	609	609	389	289	74	74	74	74	74
1,650	1,675	229	30	30	30	30	3,425	3,450	615	615	394	294	75	75	75	75	75
1,675	1,700	234	31	31	31	31	3,450	3,475	621	621	399	299	75	75	75	75	75
1,700	1,725	239	31	31	31	31	3,475	3,500	627	627	404	304	76	76	76	76	76
1,725	1,750	245	32	32	32	32	3,500	3,525	633	633	409	309	76	76	76	76	76
1,750	1,775	250	33	33	33	33	3,525	3,550	639	639	414	314	77	77	77	77	77
1,775	1,800	255	34	34	34	34	3,550	3,575	645	645	419	319	77	77	77	77	77
1,800	1,825	260	35	35	35	35	3,575	3,600	651	651	424	324	78	78	78	78	78
1,825	1,850	265	36	36	36	36	3,600	3,625	657	657	429	329	78	78	78	78	78
1,850	1,875	271	37	37	37	37	3,625	3,650	663	663	434	334	79	79	79	79	79
1,875	1,900	276	38	38	38	38	3,650	3,675	669	669	439	339	79	79	79	79	79
1,900	1,925	281	39	39	39	39	3,675	3,700	675	675	444	344	80	80	80	80	80
1,925	1,950	286	40	40	40	40	3,700	3,725	681	681	449	349	80	80	80	80	80
1,950	1,975	291	41	41	41	41	3,725	3,750	687	687	454	354	81	81	81	81	81
1,975	2,000	296	42	42	42	42	3,750	3,775	693	693	459	359	81	81	81	81	81
2,000	2,025	302	43	43	43	43	3,775	3,800	699	699	464	364	82	82	82	82	82
2,025	2,050	307	44	44	44	44	3,800	3,825	705	705	469	369	82	82	82	82	82
2,050	2,075	312	45	45	45	45	3,825	3,850	711	711	474	374	83	83	83	83	83
2,075	2,100	317	46	46	46	46	3,850	3,875	717	717	479	379	83	83	83	83	83
2,100	2,125	322	47	47	47	47	3,875	3,900	723	723	484	384	84	84	84	84	84
2,125	2,150	327	48	48	48	48	3,900	3,925	729	729	489	389	84	84	84	84	84
2,150	2,175	333	49	49	49	49	3,925	3,950	735	735	494	394	85	85	85	85	85
2,175	2,200	338	50	50	50	50	3,950	3,975	741	741	499	399	85	85	85	85	85
2,200	2,225	343	51	51	51	51	3,975	4,000	747	747	504	404	86	86	86	86	86
2,225	2,250	348	52	52	52	52	4,000	4,025	753	753	509	409	86	86	86	86	86
2,250	2,275	353	53	53	53	53	4,025	4,050	759	759	514	414	87	87	87	87	87
2,275	2,300	359	54	54	54	54	4,050	4,075	765	765	519	419	87	87	87	87	87

Normal tax exemption in case of husband and wife: If the return includes gross income of both husband and wife, the tax shall be that determined under the table, reduced by 3 percent of the smaller adjusted gross income, but not by more than \$15.00.

53. Other taxpayers will compute their tax at the following rates:

Surtax.—A taxpayer using the tax computation method at the bottom of page 4, Form 1040, will figure the surtax on the surtax net income (line 5, page 4), from the following schedule of rates:

If the surtax net income is:	The surtax is:
Not over \$2,000.....	20% of the surtax net income.
Over \$2,000 but not over \$4,000...	\$400, plus 22% of excess over \$2,000.
Over \$4,000 but not over \$6,000...	\$840, plus 26% of excess over \$4,000.
Over \$6,000 but not over \$8,000...	\$1,360, plus 30% of excess over \$6,000.
Over \$8,000 but not over \$10,000...	\$1,960, plus 34% of excess over \$8,000.
Over \$10,000 but not over \$12,000...	\$2,640, plus 38% of excess over \$10,000.
Over \$12,000 but not over \$14,000...	\$3,400, plus 43% of excess over \$12,000.
Over \$14,000 but not over \$16,000...	\$4,260, plus 47% of excess over \$14,000.
Over \$16,000 but not over \$18,000...	\$5,200, plus 50% of excess over \$16,000.
Over \$18,000 but not over \$20,000...	\$6,200, plus 53% of excess over \$18,000.
Over \$20,000 but not over \$22,000...	\$7,260, plus 56% of excess over \$20,000.
Over \$22,000 but not over \$26,000...	\$8,380, plus 59% of excess over \$22,000.
Over \$26,000 but not over \$32,000...	\$10,740, plus 62% of excess over \$26,000.
Over \$32,000 but not over \$38,000...	\$14,460, plus 65% of excess over \$32,000.
Over \$38,000 but not over \$44,000...	\$18,360, plus 69% of excess over \$38,000.
Over \$44,000 but not over \$50,000...	\$22,500, plus 72% of excess over \$44,000.
Over \$50,000 but not over \$60,000...	\$26,820, plus 75% of excess over \$50,000.
Over \$60,000 but not over \$70,000...	\$34,320, plus 78% of excess over \$60,000.
Over \$70,000 but not over \$80,000...	\$42,120, plus 81% of excess over \$70,000.
Over \$80,000 but not over \$90,000...	\$50,220, plus 84% of excess over \$80,000.
Over \$90,000 but not over \$100,000...	\$58,620, plus 87% of excess over \$90,000.
Over \$100,000 but not over \$150,000.....	\$67,320, plus 89% of excess over \$100,000.
Over \$150,000 but not over \$200,000.....	\$111,820, plus 90% of excess over \$150,000.
Over \$200,000.....	\$156,820, plus 91% of excess over \$200,000.

54. **Normal tax.**—The normal tax rate is 3 percent of the amount shown on line 9, page 4, Form 1040.

CREDITS AGAINST TAX

55. If the taxpayer itemized his actual allowable deductions and claims the amount thereof on line 2, page 4, Form 1040, income tax payments made to a foreign country or possession of the United States and income tax paid at source on tax-free covenant bond interest may be subtracted from the aggregate surtax and normal tax. This credit is *not* allowed if the optional standard deduction of \$500 is claimed on line 2, or if the *Tax Table* on page 2 is used.

WHERE TO FILE

56. Returns and payments shall be made to the Collector of Internal Revenue for the district in which is located the legal residence or principal place of business of the person making the return; or if he has no legal residence or principal place of business in the United States, then to the Collector of Internal Revenue at Baltimore, Md.

Officers, enlisted men and other employees of the naval service who have no legal residence:

(a) When on duty in Alaska *may* file their returns with the Collector of Internal Revenue at Tacoma, Washington.

(b) When on duty in the Hawaiian Islands, *may* file their returns with the Collector of Internal Revenue at Honolulu, Hawaii.

WHEN TO PAY

57. The amount shown on line 15, page 4, Form 1040, or the amount found on the *Tax Table* on page 2, constitutes the 1944 tax and must be entered on line 6, page 1 of the Form. Amounts withheld by employers, amounts paid during 1944 on estimated tax, and overpayments shown on the 1943 return for which credit was claimed against the estimated tax for 1944, will be entered on line 7 of page 1, and subtracted from the total tax. The balance of tax due will be shown on line 8, page 1, and must be paid in full at the time the return is due to be filed.

58. *Extension of time for payment.*—

(a) Under the provisions of the Soldiers' and Sailors' Civil Relief Act of 1940, as amended, a member of the armed forces whose ability to pay his tax has been materially impaired by reason of being in the service, may defer the payment of his tax (not the filing of his return), without penalty or interest, until six months after the termination of the war or separation from service, whichever comes earlier. A specific request for this deferment should be addressed to the Collector when the return is filed. The Collector may require a financial statement from the taxpayer making such a request.

(b) At the request of the taxpayer, the Commissioner of Internal Revenue may extend the time for payment of the tax for a period not exceeding six months from the date prescribed for the payment of the tax. In such case, the amount in respect of which the extension is granted, shall be paid on or before the date of the expiration of the period of the extension.

(c) If the time for payment of the tax is extended under (b) above, there shall be collected as a part of such amount, interest thereon at the rate of 6 percent per annum from the date such payment should have been made if no extension had been granted, until paid.

IMPORTANT

59. It is important to note that penalties are imposed for:

- (a) Failure to file a return.
- (b) Failure to file a return on time.
- (c) Submitting a false return.
- (d) Willful failure to pay the tax.

It is also important that the taxpayer's name and mailing address be clearly shown on the return.

The return must be signed by the taxpayer, or his authorized agent. Where it is a joint return, be sure that both husband and wife sign it.

It is not necessary for the 1944 returns to be notarized.

DECLARATIONS OF ESTIMATED RETURNS

60. **General.**—As a part of the new "pay-as-you-go" system for the collection of income taxes, employers are required to withhold from "wages," as defined in the law, a stipulated part thereof for taxes. Certain income, including compensation paid to members of the

armed forces on active duty, is specifically excluded from the definition of wages and is, therefore, not subject to withholding. Other types of income not subject to withholding are interest on bank accounts, dividends, rents, royalties, partnership distributions, etc. In order that persons receiving income on which the tax is not withheld at source may pay their taxes currently, it is required that they make an estimate of their tax for the year and pay a part of such estimated tax each quarter. Under this system, all taxpayers will be approximately paid up-to-date for the taxable year within 15 days after the end thereof.

61. *Who must file.*—Every individual citizen and resident of the United States is required to file a declaration of estimated tax (Form 1040 ES) for the calendar year 1945 if he expects to receive during such calendar year,

(a) Wages subject to withholding in excess of \$5,000, plus \$500 for each surtax exemption to which he is entitled except his own (See Secs. 48-50); or

(b) "Gross income" from sources not subject to withholding in excess of \$100, provided his total "gross income" is expected to amount to \$500 or more.

For example: An officer or enlisted man whose total active service pay is less than \$2,000 and who has no other income, will not be required to file a declaration of estimated tax. An officer or enlisted man whose total active service pay is \$2,000 or more will be required to file a declaration of estimated tax, even though his estimated tax is zero.

62. *When to file.*—For the calendar year 1945, declarations of estimated tax are due as follows:

If requirements for filing are met:	Declaration is due:
Before 2 March.....	15 March.
Before 2 June.....	15 June.
Before 2 September.....	15 September.
After 1 September.....	15 January 1946.

For example: If an officer, up to 2 June 1945, has not expected enough income during the entire year 1945 to require him to file a declaration, but on that date such expected income is increased by reason of a promotion, so that he does fall within the requirements, a declaration is due from him on or before 15 September.

In the case of members of the armed forces on sea duty or on duty outside of the United States at the time a declaration is normally due, the due date is automatically postponed the same as the date for filing income tax returns is postponed as set forth in Section 8.

63. *What to file.*—Declarations of estimated tax should be made on Form 1040 ES. A husband and wife may file either joint or separate declarations.

Solely for the purpose of preparing declarations, the declaration may show either the tax computed on aggregate incomes or the aggregate tax computed on separate incomes. The filing of a separate or a joint declaration does not bind taxpayers to the filing of final income tax returns on the same basis. Taxpayers may file a joint declaration and then file separate final returns. Payments made on a joint declaration may be claimed on their separate final returns by

either the husband or the wife, or divided between them in any proportion they choose.

A taxpayer, whose estimated tax on an original declaration is substantially increased or decreased as a result of a change in expected income, deductions, or exemptions should file an amended declaration on or before the next filing date (15 June 1945, 15 September 1945, or 15 January 1946), following such change. The amended declaration should be made on Form 1040 ES and marked plainly "Amended," and filed with the same Collector with whom the original declaration was filed. Any increase or decrease in the estimated tax should be spread evenly over the remaining installments.

64. *How to estimate.*—A taxpayer can estimate his tax for 1945 in the same way that the tax for 1944 is computed. It is suggested that the taxpayer use his tax for 1944 as his 1945 estimate if it is expected that his income, exemptions, and deductions will be the same in 1945 as they were in 1944.

65. *Where to file.*—Declarations should be filed with the Collector of Internal Revenue with whom the 1944 return is filed, or with whom the taxpayer expects to file his 1945 income tax return.

66. *Payment of estimated tax.*—The estimated tax is payable in equal installments, the first of which is to be paid with the declaration. For example: The estimated tax shown on a declaration filed on 15 March should be paid in four equal installments; if first filed on 15 June, payments should be made in three equal installments, and if first filed on 15 September, the payment should be made in two installments.

The last payment is due on or before 15 January 1946. Any credit for overpayment of the 1944 tax may be applied against the first installment of estimated tax, provided the taxpayer indicated on the 1944 return that the overpayment should be so credited. A taxpayer may also file his income tax return for 1945 on or before 15 January 1946, and pay the actual balance of tax due instead of making the final installment payment on the estimated tax.

In case the due date for paying one or more installments of estimated tax is postponed because the taxpayer is on sea or foreign service duty, the first of the postponed installments is payable on the new due date, and the second and third postponed installments, if any, are payable three and six months, respectively, after such new due date. In no event, however, may the due date for paying any installment be postponed beyond the due date for filing the final return for the taxable year involved.

67. *Penalties.*—A penalty of 6 percent of the difference between the estimated tax and the actual tax, but not more than the difference between the estimated tax and 80 percent of the actual tax, is imposed for underestimating by more than 20 percent. This penalty will not apply, however, if the estimated tax for 1945 is computed on an income not less than the income for 1944 at 1945 rates and exemptions, and if such estimated tax is timely paid.

For failing to file a declaration or failing to pay the estimated tax, a penalty of 5 percent of the unpaid amount of each installment due, plus 1 percent for each month or part of a month (except the first) during which such amount remains unpaid, up to a maximum of 10 percent of the unpaid amount of such installment, is also imposed.

The same penalties for willful failure to make a return or for the willful making of a false return are applicable with respect to declarations of estimated tax.

ABATEMENT OF TAX IN CASE OF DEATH

68. Under the provisions of section 421 of the Internal Revenue Code, a member of the armed forces who dies while on active duty on or after December 7, 1941, and prior to the termination of the present war, shall not be subject to Federal income tax on his income received during the taxable year in which falls his date of death. Furthermore, any unpaid tax liability outstanding against such member of the armed forces at the time of his death, shall be canceled or abated. If the tax is collected or paid subsequent to the date of death, it shall be credited or refunded as an overpayment. This abatement applies to interest and penalties as well as to the tax.

W. B. YOUNG,
Rear Admiral (SC), U. S. Navy,
Paymaster General of the Navy.

NOTES

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**END OF
TITLE**